THE BUDGET IMPACT

How satisfied is the corporate sector with the Budget ’97? Business Today did an opinion poll among a cross-section of the corporate society to find out the real reactions and the final verdict.

The PA Government’s third budget presented in Parliament on 6th November, has evoked mixed feelings. While part of the private sector hails it as a development-oriented futuristic budget, the other part feels that the incentives and concessions are totally one-sided.



The Ceylon Chamber of Commerce (CCC) and the National Chamber of Commerce in particular, came out very strongly in favour of the budget, stressing the fact that the Government had taken into account over 90% of the recommendations made by them evolving an economy driven by the Private Sector. The full implementation of increase in depreciation allowances on plant and machinery, foreign borrowing for exports, lower withholding tax, and the removal of stamp duty on share transactions were some of the recommendations. Mano Selvanathan, Chairman of the CCC said,

“positive signals have been sent out and it is imperative that the private sector now takes the baton. We have to make maximum use of the benefits and concessions granted in order to increase investment, employment and growth”. Selvanathan mentioned two sectors that have to be looked into, one being the hotel and tourism sector that has been badly affected in the last year and the other being the value-added exports.

“We need new investment taking place which will result in industrial and economic growth resulting in increased employment” – de Zoysa.

Tilak de Zoysa, Past President of the National Chamber of Commerce said that there has been a conscious recognition of the importance of Sri Lanka in being competitive in the ‘global village”. “The Minister has noted the importance of industrial growth, continued efforts to narrow the budget deficit and specific support for underdeveloped areas in the country. We need new investment taking place which will result in industrial and economic growth resulting in increased employment”, added de Zoysa.



Chairman, John Keells Holdings, *Ken Balendra* aired his views thus: “There is a limit to how much the Government can give into private sector demands.. There is a huge expenditure on the North-East war and a substantial budget. deficit that must be contained. If it goes out of proportion, it will have an impact on all businesses. We have to work within those constraints and appreciate the Government’s position in not being able to please everybody. It is now upto us to take the opportunities given and respond appropriately.”

“The budget has yielded positive results and we propose to minimize the ambiguity of the policy thrust of the budget” – Thilan Wijesinghe

Meanwhile, Board of Investments (BOI) Chairman, Thilan Wijesinghe is busy mapping out a refined package to investors, which is geared towards enhancing regional development. He spelled out the areas that had been conveyed by the BOI as being necessary for investor confidence sustaining existing investments, promoting expansion and further investment, facilitating regional development through industrial estates and townships and the reduction of up-front investment cost. Among the other recommendations, the re-investment tax allowance and

additional tax holiday for investors in difficult areas have been accepted. Wijesinghe emphasized that to bring about development in regional areas, BOI incentives should be channelled into industrial estates and townships and also that additional incentives will make investors go into the difficult areas. “The budget has yielded positive results and we propose to minimize the ambiguity of the policy thrust of the budget. A more targeted package of incentives will be introduced soon by the BOI”, stated Wijesinghe.



However, the trend of thought among some of the exporters is that most of the concessions given have already been existent. According to Lyn Fernando, Chairman of one of the larger garment exporters, Creations (Pvt) Limited and Chairman, Export Sector, CCC, there has always. been a scheme that permits off-shore borrowings for the non-traditional sector, which about a year ago was withdrawn for the small sector by the Central Bank. The reason given was that this sector had no exposure to foreign currency borrowing. “Now, offshore borrowings will be given only to those exposed to foreign currency borrowing-Isn’t the yardstick the same”? The incentives given in other countries should be matched urgently. For example, the Duty Rebate Scheme in India is processed within 48 hours to offset the disparity in the exchange rate, thus giving exporters the benefit immediately. “There has always been a 10-15-year tax holiday for garment factories set up in difficult areas. There are many garment factories outside Colombo that are not BOI but which should really be given many incentives. If we are looking at employment generation, tax holidays should be given to any factory outside Colombo, giving a yardstick on employment”, said Fernando.



With the Year of Productivity in focus, *Armyne Wirasinha,* Chairman of Ceylon Shipping Lines, Apollo Hospitals and C & H Lanka Limited, which is a BOI venture in collaboration with Walt Disney, the largest manufacturing concern in Asia-and the current Head of the National Chamber of Commerce stressed that Government emphasis has been on the increase of productivity and the need to be competitive. With the increase in production, products will be marketed better and Sri Lanka will learn to be competitive in an ever expanding international market. “However, we would have liked a government declaration on the GST to be introduced next year, since this will bring about a total change in the concept of the tax structure”, noted Wirasinha, a fact which was found to be a common consensus among a majority of the Private sector.

“Encouraging new investment by giving relief is an extremely good sign” – Sheamalee Wickramasinghe

Encouraging new investment by giving relief is an extremely good sign”, says *Sheamalee Wickramasinghe*, Director, Ceylon Biscuits Ltd. “The fact that not only the BOI companies, but even those exporting over 50% of their products are getting these concessions for a start, can only be termed as looking towards a prosperous future for our industries.”

CEO and Managing Director of Aitken Spence & Company, *R Sivaratnam* was of a similar view, emphasizing that with the introduction of tax allowances and the acceleration of depreciation, investment is encouraged.

“A serious disincentive to investors might be the restriction to carry forward tax losses to a maximum of 7 years, especially view of projects with long gestation periods” – R Sivaratnam

“However a serious disincentive to investors might be the restriction to carry forward tax losses to a maximum of 7 years, especially in view of projects with long gestation periods”. Touching on tourism and the hotel industry, Sivaratnam noted that tourism has not been recognized as an export industry. “The World Tourism Organisation and the recent Master Plan prepared by the UNDP, clearly indicates that tourism internationally is accepted by various Governments as an invisible export and qualifies for concessions granted to the export trade.”



Tourism and the Hotel industry has not had the best of years. Big hotels especially, have not had the benefit of rescheduling their loans unlike the outstation hotels. *Chandra Mohotti,* General Manager of the Galadari Hotel, said “We have repeatedly appealed for the BTT to be removed. But it has only been increased and this will take a further toll on our already heavy burdens. That additional 1% could have been used to increase our profit margins a little higher and subsequently passed onto the customer”. According to Mohotti, even items that are absolutely essential to a hotel is not given a duty concession. “There may be abuse of such concessions. But I feel that if the Tourist Board monitors such concessions, the genuine cases can be given the redress they so need to tog up a flagging industry”. Mohotti was also of the view that there are still no clear guidelines on casinos. “This issue has to be looked into-legality, restrictions, approaches etc., or five star hotels will probably not be able to reap the benefits, especially after what happened last time.”

“A budget is only the vision and a signal to the people to take it for their own good or bad” – Tissa Jayaweera

However, *Tissa Jayaweera,* Chairman, Lanka Ceramic Limited had a completely different view on budgets in Sri Lanka. “A budget is only the vision. and a signal to the people to take it for their own good or bad. A budget is not all important. It is only a guideline for business and general life. In a highly developed country like Japan for example, governments have changed, budgets have come and gone, but

the country keeps developing. We must get together to get the economy moving and be in a position to dictate terms.”



Rajan Asirwatham, Chairman, Bank of Ceylon sums it up. “By and large, the concerns of the private sector have been brought into focus. It is hoped however, that the expected employment generation will result from this. Industrialists may go in for larger and more sophisticated equipment and not bring about the desired employment”. With a population of over 18 million he was of the view that taxation should be equally distributed but that Professionals had no need to complain as with the tax rate progressively decreasing, they could now plan for the future.



However, the 1% increase in BTT seems to have got many hot under the collar. Small and medium industries especially, feel that this budget has penalized them a great deal. Surangani Gunasinghe, Managing Director, Sean Products Export (Pvt) Limited, felt that goods imported into the country sometimes pay BTT as low as 2%,

while local industries using local raw materials and manufacturing goods locally, pay BTT as high as 7-20%. “BTT is always passed onto the consumer. The only thing that happens in this instance is that the average wage earner will deprive his children of the jam or cordial that he/she usually buys”.



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Sun Match Company Limited, Kundasale will now pay nearly Rs 4 million additionally on the increase of 1% BTT. Chairman, *T R R Rajan* says, “increasing BTT will only make the cost of living go up further because it is always the consumer who pays”. He also felt that the tax holidays given to export-oriented companies should developed the local industry.

The trend of thought that the local entrepreneur has not been given any emphasis in this budget was prevalent in most spheres of the local industry. “We as entrepreneurs have fretted our lives away trying to develop an industry, give employment and do Sri Lanka proud. We are treated like second class citizens”, says the Managing Director of Arcadia (Pvt) Limited, *Suriyakanthi Mellawa*. “Take countries like Malaysia and Indonesia-local industry is developed first before foreigners are brought in. But here, the foreigners will take the benefits and export at very low cost. There will be a multi-international economic invasion that will take place in our country soon with minimum effort”. She says that her industry, a footwear manufacturing industry catering mainly to the local market has felt no relief, especially after a relatively downward year. “The public sector has incurred an increase in employment of 4% while the private sector has had a decrease of 4%. Many factories closed down in the last year. This is the reason for the decrease of 4% in the private sector. That gap of 4% can be filled up by teaching our young people the dignity of labour. Then develop our infrastructure like the road network, telecommunications etc. Give incentives to those who work on these projects. Giving Samurdhi benefits only increases the already widening gap between office

jobs and manual jobs. Training graduates for white collar jobs either will not help."

In a contract for the maintenance and cleaning of the Ruhunu University premises, obtaining labour from the area proved to be no obstacle. Asha Fernando, Chairman of Floor Shine Services (Pvt) Limited says, "My main workforce consists of daily wage earners. Getting manual labour in Colombo is virtually impossible. But in rural areas it is absolutely no problem, which shows that unemployment can be decreased only if incentives are given to smaller companies to begin projects in rural areas. Big companies do not create employment generation-it is the smaller ones that bring in the results."



The thoughts of *Rance Ratnayeke,* Managing Partner, A & A International and Eric Rajapakse Opticians and Rohan
Edirisinghe, Director, Business Development of Car Mart Limited were on the same lines. "More stimuli has to be given to small and medium industries. Giving tax holidays and free air. freight etc., is a good thing, but there are other sectors that have to be given a boost. The small industries that took loans to buy generators during the recent power crisis, are now slowly limping back to life and these should be given a helping hand". Edirisinghe laughingly said, "as a fairly large importer of cars into the country, we wish the Government hadn't frozen the purchase of motor vehicles for Government but all in all, it was a good budget."

Ratnayeke felt that though the budget was very good for export promotion and investment, the whole economy was not represented. "There has been no comment on the year gone by and little seems to be done for local small and medium industries. Professionals have been badly affected by the increase in BTT and though Corporate tax has been reduced, there will be a spiraling effect anyway."

"The import of duty free machinery will give industries the necessary lift"

– Janaka Induruwana

Another small exporter and supplier to the local market, Lanka Spice Limited will face a heavier burden with the BTT increase. Janaka Induruwana, Managing Director says, “Although 1% doesn’t seem much, in total, this amount will be paid by the consumer. However, the import duty free machinery will give industries the necessary lift.”

The encouragement granted to the agricultural produce sector has given many a vegetable, fruit and flower exporter, the drive to make further inroads to export into European markets. According to Jeremy Rajiah, General Manager of Metropolitan Agro Industries (Pvt) Limited, a subsidiary of Bogawantalawa Plantations Ltd., “there is much potential for the export of vegetables, but so far we have not been able to match the demand and we also cannot be very competitive. We welcome the 100% rebate on air-freight for our fruits and vegetables because this will now give us a chance to expand our horizons.”

The investment drive especially in the flagging stock market had the financial sector in the country looking at a positive year ahead.

“If the stamp duty of the debt instruments is taken off in the secondary market, a much-needed long term yield curve will establish” – Ajith Devasurendra

“We welcome the long term debt instruments. If the stamp duty of the debt instruments is taken off in the sec ondary market, a much-needed long term yield curve will establish. Today, what the country lacks is long term debt. Industries are funding their long term commitments with short term borrowings. With the introduction of long term debt instruments by the Central Bank there will be a long term debt market”, intoned the Managing Director of MB Financial Services (Pvt) Limited, *Ajith Devasurendra.*

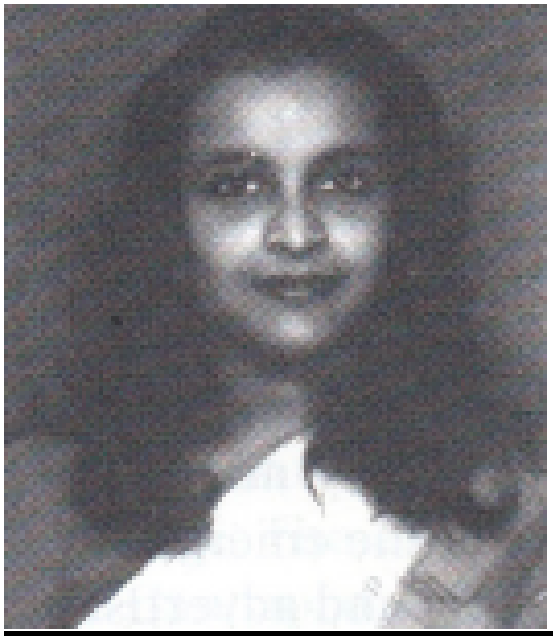
“The exchange rate mechanism is something that affects the entirety of the population in the country”,



says C Jayaratne, Managing Director of CTC Eagle Insurance Company Limited. “We must retain exchange rates at optimum level. The budget has specifically shown figures which show the balance of payment reserve position going up by 1997. One can envisage that if budgetary financing is done the way it is, there is unlikely to be a depreciation of currency which is good to stop inflation”. He added that certain benefits and support have to be given to those industries that are dependent on the services sector and value-added exports.

The SEC recently granted a license to Unit Trust Managing Company (Pvt) Limited, to operate a new Unit Trust and Deputy Chairman, Mano Selvanathan was all smiles about the new incentives. “The exemptions given to the stock market has given a new lease of life to a market that has been a little slow in the last year. The budget seems positive for foreign investors and market players.”

It is very clear from the comments of the various sectors and the plan of the Government, that Sri Lanka is faced with many challenges in the years ahead- upgrading small and medium industries, creating investor confidence, developing backward areas, reducing unemployment and grappling with the spiralling cost of living. If the country is to enter the 21st century with confidence and dignity to face these challenges, our economy has to be developed and geared towards a competitive, market-friendly environment.



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